No. 14-1520

In the Supreme Court of the United States

STRYKER CORPORATION, ET AL., PETITIONERS

v.

ZIMMER, INC., ET AL.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE PETITIONERS

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QUESTIONS PRESENTED

Section 284 of Title 35 provides that, in cases of infringement of a valid patent, the district court "may increase the damages up to three times the amount found or assessed." The Federal Circuit holds that, before a district court may decide whether to enhance damages based on the totality of the circumstances in a particular case, the court must first find by clear and convincing evidence that (i) the infringer acted despite an objectively high likelihood that its conduct was infringing (which is reviewed de novo on appeal), and (ii) the infringer knew or should have known of the risk (which is reviewed for clear error).

The questions presented are as follows:

1. Whether the Federal Circuit has erred in imposing a rigid, two-part threshold test on the flexible text of Section 284.

2. Whether a district court has the discretion under Section 284 to award enhanced damages for the deliberate copying of a patented invention.

PARTIES TO THE PROCEEDINGS

Petitioners are Stryker Corporation, Stryker Puerto Rico, Ltd., and Stryker Sales Corporation.

Respondents are Zimmer, Inc. and Zimmer Surgical, Inc.

CORPORATE DISCLOSURE STATEMENT

Petitioner Stryker Corporation has no parent corporation, and no publicly held company owns 10 percent or more of its stock.

Petitioners Stryker Puerto Rico, Ltd. and Stryker Sales Corporation are indirectly wholly owned by petitioner Stryker Corporation.

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BRIEF FOR THE PETITIONERS

OPINIONS BELOW

The amended opinion of the court of appeals (Pet. App. 3a-25a) is reported at 782 F.3d 649. The original opinion of the court of appeals (Pet. App. 26a-48a) is reported at 774 F.3d 1349. The opinion of the district court denying respondents' motions for judgment as a matter of law and granting petitioners' motions for enhanced damages and attorney's fees (Pet. App. 49a-122a) is not reported but is available at 2013 WL 6231533. The opinion of the district court granting petitioners' motion for summary judgment of infringement (Pet. App. 123a-134a) is not reported. The opinion of the district court construing patent claim terms (Pet. App. 135a-173a) is not reported but is available at 2012 WL 333814.

JURISDICTION

The court of appeals entered its judgment on December 19, 2014. A petition for rehearing was denied on March 23, 2015 (Pet. App. 1a-2a). The petition for a writ of certiorari was filed on June 22, 2015, and granted on October 19, 2015. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

STATUTORY PROVISION INVOLVED

Section 284 of Title 35 provides as follows:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the

> invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

STATEMENT

This case involves the interpretation of 35 U.S.C. 284, which provides that a district court "may" award "up to three times" the amount of actual damages in cases of adjudicated patent infringement. By its plain text, Section 284 commits broad discretion to district courts to determine whether enhanced damages are warranted in any particular case based on the totality of the circumstances. But in *In re Seagate Technology, LLC*, 497 F.3d 1360 (2007) (en banc) (*Seagate*), the Federal Circuit held that, before a district court may decide whether to enhance damages based on the totality of the circumstances, the court must first find by clear and convincing evidence that (i) the infringer acted despite an objectively high likelihood that its conduct was infringing and (ii) the infringer knew or should have known of the risk. In subsequent cases, the Federal Circuit has held that the test's first prong is reviewed de novo on appeal and is not met if the infringer has asserted a nonfrivolous defense in litigation, regardless of the egregiousness of its pre-suit conduct. Applying its two-part threshold test here,

the Federal Circuit held that the district court could not even consider a discretionary enhancement, although the jury found respondents' infringement was intentional and in bad faith. Pet. App. 21a-25a.

A. Statutory History

1. The Patent Clause of the Constitution empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their * * * Discoveries." U.S. Const. art. I, § 8, cl. 8. Title 35 establishes the statutory framework governing the issuance of patents, and it grants a patentee "remedy by civil action for infringement of his patent." 35 U.S.C. 281. The Act provides that "[u]pon finding for the claimant, the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. 284. The Act also states that a district court "may increase the damages" for infringement "up to three times the amount found or assessed." *Ibid.*

2. a. Congress enacted the first Patent Act in 1790, which, upon a finding of infringement, permitted a patentee to recover "such damages as shall be assessed by a jury." Patent Act of 1790, ch. 7, § 4. Three years later, Congress amended the Patent Act to provide for mandatory enhanced damages: infringers had to pay in damages at least three times the amount the patentee usually received for either selling or licensing the invention. Patent Act of 1793, ch. 11, § 5. Seven years later, Congress again modified the available remedy, requiring infringers to pay "a sum equal to three times the actual damage sustained." Patent Act of 1800, ch. 24, § 3.

The main reason for mandatory trebling at the time was Congress's concern that, because plaintiffs

lacked access to equity to prevent ongoing infringement, actual damages alone were inadequate to compensate patentees and to deter disregard for patent rights. See S. Rep. Accompanying Senate Bill No. 239, 24th Cong., 1st Sess. (Apr. 28, 1836), at 6 (explaining that pre-1836 patent law "offer[ed] an inadequate remedy for the [infringement] injury, by giving an action of damages"); *Seagate*, 497 F.3d at 1378 (Gajarsa, J., concurring).

b. Over time, however, Congress discovered that broad interpretation of the conditions of patentability, in combination with the guarantee of treble damages, risked abuse of the patent system. See Senate Report, *supra*, at 3. In 1836, in addition to tightening the criteria for granting new patents, Congress repealed the mandatory award of treble damages and instead gave district courts the discretion to award up to three times actual damages "according to the circumstances of the case." Patent Act of 1836, ch. 357, § 14. The 1836 Act also authorized injunctive relief "to prevent the violation of the rights of any inventor * * * on such terms and conditions as [the] courts may deem reasonable." *Id.* § 17.

c. When Congress revisited the statute again in 1870, it retained discretionary trebling "according to the circumstances of the case" in actions at law, and empowered courts of equity to award damages. See Patent Act of 1870, ch. 230, §§ 55, 59. Notably, Congress also gave courts of equity "the same powers to increase [damages] *in [their] discretion*" as those possessed by courts of law—in other words, the discretion to enhance damages up to three times the amount assessed based on the circumstances of the case. *Id.* § 55 (emphasis added). Thus, after 1870, a patentee could file suit in either law or equity for an

award of damages subject to discretionary enhancement, but in equity the patentee also could obtain injunctive relief.

d. In light of the merger of law and equity, Congress reorganized the patent laws in the Patent Act of 1952, granting all courts with jurisdiction of patent infringement cases the authority to provide both injunctive and monetary relief. See 35 U.S.C. 283, 284. The new, unified damages provision stated simply—in language that remains in effect today—that a district court "may increase the damages up to three times the amount found or assessed." 35 U.S.C. 284 (1958). As Congress and this Court have explained, the changes to the statutory text that occurred during the 1952 reorganization—including removal of the phrase that district courts should enhance damages "according to the circumstances of the case"—were not substantive. See *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 652 n.6 (1983) (quoting H.R. Rep. No. 1923, 82d Cong., 2d Sess. 10, 29 (1952)).

3. Thus, from the enactment of the discretionary enhancement provision in 1836 through the latter half of the twentieth century, courts determined whether the totality of the circumstances in each particular case justified enhancement of an award. See *infra*, pp. 27-29 (cataloguing cases). Although courts often determined that wrongful or culpable conduct by an infringer warranted an award of enhanced damages, that factor generally was not viewed as a prerequisite to such an award, and courts also awarded enhancements for other purposes, including fully compensating patentees. See *infra*, pp. 30-34.

In the 1990s, however, the Federal Circuit adopted an approach that treated the willfulness of infringement as a strict prerequisite to the district court's

discretionary decision whether to enhance damages. Without a finding of willfulness, there could be no enhancement. In 2007, the en banc Federal Circuit in *Seagate* confirmed its view that willfulness is a prerequisite, and further held that willfulness requires two successive showings by clear and convincing evidence: the infringement was objectively reckless (which the Federal Circuit has subsequently held is reviewed de novo on appeal), and the infringer knew or should have known of the objective risk (which is reviewed for clear error). See 497 F.3d at 1371. Only then may a district court make the enhancement decision based on the totality of circumstances (reviewed for abuse of discretion). A patent holder thus has two hurdles to clear before a court may even consider the appropriateness of enhancement. Since *Seagate*, the Federal Circuit has interpreted objective recklessness ever more narrowly, including by allowing even egregious infringers to escape enhancement if their counsel present nonfrivolous defenses in litigation.

B. Factual And Procedural History

1. Zimmer's deliberate infringement

Petitioner Stryker Corporation is an industry leader in the medical device field. Over the course of more than five years, a team of Stryker engineers pioneered innovative pulsed lavage devices, which are instruments used by medical professionals to clean bone surfaces during surgery and improve wound visualization. Unlike previous devices, Stryker's "SurgiLav Plus" and its next-generation "InterPulse" are battery-powered, handheld, portable, and disposable. They represent a significant improvement over prior pulsed lavage models, which were bulky and required a centralized power source. The Patent Office award-

ed multiple patents to Stryker on its "pioneering" devices, three of which form the basis for this suit. Pet. App. 50a-51a.

Respondent Zimmer Inc. is Stryker's direct competitor. In response to Stryker's introduction of the innovative SurgiLav Plus, Zimmer introduced its own pulsed lavage device, "Var-A-Pulse." Var-A-Pulse was not commercially successful, and Zimmer would later describe it as a "poorly designed product with little thought given to ergonomics or user needs" that was "rushed to the market and has been dogged by reliability and functionality issues since its release." J.A. 282. Var-A-Pulse's "poor performance and product quality issues" prompted Zimmer's concerns that it would be "eliminate[d]" as "a player in the lavage market in the future." J.A. 282, 294.

Zimmer eventually brought to market the "Pulsavac Plus" line of products, which were simply copied from Stryker's patented products. As the district court explained, "[r]ather than relying on their own engineers to develop an alternative, Zimmer hired an independent contractor with no experience in pulsed lavage devices. In essence, Zimmer handed the independent contractor a copy of Stryker's product and said, 'Make one for us.'" Pet. App. 51a. Notwithstanding its decision to copy the Stryker device, Zimmer did not seek outside advice either to assess the potential for infringement or to evaluate the validity of Stryker's patents. Once Zimmer introduced its Pulsavac Plus products, there was "fierce, direct market competition between Stryker and Zimmer" and "Zimmer constantly sought to lure customers away from Stryker and had a fair amount of success in doing so with its new product." *Ibid.* Zimmer, however, encountered severe quality issues with its Pulsavac

Plus products. Zimmer ultimately pulled the products from the market in 2007, and did not restart production until December 2008. *Id.* at 51a-52a.

2. Proceedings before the District Court

In late 2010, shortly after Zimmer had reentered the market, Stryker filed suit and alleged infringement of three patents, U.S. Patent Nos. 6,022,329 ("the '329 patent"), 6,179,807 ("the '807 patent"), and 7,144,383 ("the '383 patent"). In November 2012, the district court granted Stryker's motion for summary judgment of infringement with respect to all twenty asserted claims of the '807 and '383 patents and all but one claim element of the '329 patent. See Pet. App. 123a-134a. Even after that ruling of infringement, Zimmer continued to sell the infringing products; it made no effort to cease its infringement or mitigate damages. *Id.* at 118a.

The case proceeded to trial on the remaining issues. After a two-week trial, the jury returned a verdict "unequivocally in Stryker's favor." Pet. App. 50a. The jury found that (i) Zimmer's Pulsavac Plus products infringed the remaining claim of Stryker's '329 patent; (ii) Zimmer had failed to establish any of its 22 invalidity contentions; (iii) Zimmer's infringement was willful; and (iv) Stryker was entitled to $70 million in lost profits. *Ibid.* After the jury returned its verdict, both parties filed motions. As relevant here, Zimmer moved for judgment as a matter of law that its infringement was not willful. *Id.* at 73a. Stryker moved for enhanced damages and attorney's fees pursuant to 35 U.S.C. 284 and 285. *Id.* at 108a, 116a.

In denying Zimmer's motion, the district court applied *Seagate*'s two-part test for willfulness. With respect to the first prong of objective recklessness, the

court concluded "there was an objectively high likelihood that Zimmer's actions constituted infringement of Stryker's valid patents," because among other things "it was far from likely * * * that the jury could have accepted one or more of Zimmer's defenses." Pet. App. 77a-78a. With respect to the second prong of subjective bad faith, the court concluded that the jury had "ample justification" for finding Zimmer knew of the likelihood of infringement, in large part because Zimmer had copied Stryker's patented products. *Id.* at 79a. In the court's view, "Zimmer chose a high-risk/high-reward strategy of competing immediately and aggressively in the pulsed lavage market and opted to worry about the potential legal consequences later." *Id.* at 52a.

Having found that Zimmer's infringement was willful under the two-part *Seagate* test, the district court proceeded to analyze whether it should exercise its discretion under Section 284 to enhance the jury's damages award. The court considered the totality of the circumstances, informed by its careful examination of hundreds of trial exhibits, credibility assessments of more than a dozen trial witnesses, and experience presiding over the case for three years. Pet. App. 116a-120a. The court observed that "this was not a close case," noting that "[e]very major decision—from claim construction through post-verdict motions—went against Zimmer." *Id.* at 118a. In addition to reiterating that Zimmer had "deliberately copied Stryker's patented inventions," the court noted that Zimmer had continued to infringe throughout the course of the litigation—including after the court's summary judgment rulings and the jury's infringement verdict. *Id.* at 117a-118a. Indeed, Zimmer had even "attempt[ed] to prevent Stryker from discover-

ing certain aspects of its infringement in the run up to trial." *Id.* at 119a. The court therefore applied Section 284 and trebled the jury's damages award. *Ibid.*

3. Proceedings before the Federal Circuit

On appeal, the Federal Circuit affirmed that Zimmer was liable for infringing Stryker's patents, but vacated the awards of enhanced damages and attorney's fees on the ground that Zimmer's infringement was not willful. Pet. App. 36a, 39a, 40a, 43a, 44a-47a. Reviewing de novo the district court's determination of objective recklessness, the Federal Circuit held that Zimmer's defenses to infringement—two predicated on claim construction and one on obviousness—were not meritorious but were not objectively unreasonable. *Id.* at 46a-47a. The Federal Circuit reached that conclusion in part by relying on defenses to willfulness that Zimmer had presented for the first time on appeal. Compare *id.* at 21a-24a, with *id.* at 73a-79a. Because the Federal Circuit held that Zimmer's infringement was not objectively reckless, it vacated the district court's enhanced damages and attorney's fees awards. *Id.* at 25a.

The Federal Circuit subsequently denied Stryker's request for rehearing en banc to reevaluate the appropriate standard for granting enhanced damages in light of this Court's decisions in *Octane Fitness, LLC* v. *ICON Health & Fitness*, 134 S. Ct. 1749 (2014), and *Highmark Inc.* v. *Allcare Health Management System, Inc.*, 134 S. Ct. 1744 (2014). Pet. App. 1a-2a.

SUMMARY OF ARGUMENT

I. In its recent decisions in *Octane* and *Highmark*, this Court rejected the Federal Circuit's rigid approach to attorney's fees under 35 U.S.C. 285, in light of that provision's flexible, discretionary lan-

guage. The Federal Circuit's former test required a party seeking fees to prove by clear and convincing evidence that the litigation was both objectively baseless and conducted in bad faith. Moreover, the Federal Circuit reviewed the first of those requirements—objective baselessness—de novo. In *Octane* and *Highmark*, this Court held that district courts deciding whether to award attorney's fees under Section 285 should consider the totality of the circumstances, based on a preponderance of the evidence, subject to review for abuse of discretion.

II. The Federal Circuit has adopted an equally rigid and largely identical approach to damages enhancements under 35 U.S.C. 284, even though the language of Section 284 is more flexible than that of Section 285. Under the Federal Circuit's test, before a district court may consider whether to grant an enhancement, a patentee must prove by clear and convincing evidence both that the defendant's infringement was objectively reckless (which is reviewed de novo) and that the infringer acted in subjective bad faith (which is reviewed for clear error). That approach has no basis in Section 284's text, which does not contain any prerequisite and instead grants discretion to district courts to conduct a single, totality-of-the-circumstances inquiry. Because nothing in the text or history suggests otherwise, the standard civil burden of proof governs. And, because the requisite analysis is discretionary, a district court's determination whether to award enhanced damages should be reviewed for abuse of discretion.

III. From the enactment of the discretionary enhancement provision through the latter half of the twentieth century, district courts generally conducted a single totality inquiry, in which they considered a

wide range of circumstances and enhanced damages when warranted to serve goals of compensation, deterrence, or punishment. Appellate courts reviewed such decisions for abuse of discretion. Even when district courts invoked Section 284 to punish or deter the infringing defendant, they used the term "willful" to refer to a heightened degree of culpability greater than negligence. Such heightened culpability was treated as a sufficient condition for enhancing damages, but not as a necessary one. Willfulness and the enhancement analysis thus looked quite different as a historical matter from the Federal Circuit's dual threshold requirements of objective recklessness and subjective bad faith.

IV. Overruling the Federal Circuit's current approach and returning appropriate discretion to the district courts should not open the floodgates to enhanced damages awards. Rather, courts should resume considering the factors that traditionally guided their exercise of discretion. In the mine-run of cases, courts will be asked to use Section 284 in order to punish or deter culpable conduct. They should assess the degree of a defendant's culpability by considering, *inter alia*, whether the defendant deliberately copied the patented invention; whether the defendant continued to infringe after actual or constructive notice of the patent; whether the defendant reasonably investigated the possibility of infringement; and whether the question of liability was close or clear-cut based on what the defendant knew at the time. Although the defendant's degree of culpability typically will be central to the totality inquiry, courts still must weigh evidence of culpability alongside other factors to determine whether and to what extent an enhancement is warranted.

V. Even if willfulness were a prerequisite to enhanced damages (despite Section 284's text and history), willfulness should itself be based on a totality of the circumstances—as it was before the Federal Circuit adopted its rigid, two-part *Seagate* test. The Federal Circuit wrongly imported that test from this Court's decision in *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47 (2007). The Federal Circuit has only made matters worse since *Seagate*. It has held that the test's first prong—objective recklessness—is reviewed de novo on appeal. It has further held that this prong cannot be satisfied if the infringer advances minimally plausible defenses in litigation, even if those defenses were unknown to the infringer prior to litigation. The net effect is that even the most egregious infringers can escape enhancement by employing clever counsel to devise nonfrivolous defenses at any point in litigation, even on appeal. Parties are thus encouraged to infringe and take their chances in court, rather than to develop an alternative design or resolve disputes through consensual licensing.

VI. This Court should reverse the Federal Circuit's vacatur of enhanced damages. After finding objective recklessness and subjective bad faith, the district court considered the totality of the circumstances (including Zimmer's egregious conduct), trebled the jury's damages award, and granted attorney's fees. In light of the adjudicated facts, the district court did not remotely abuse its discretion, and therefore this Court should reinstate its awards of enhanced damages and attorney's fees. At a minimum, however, the Court should remand the case to the Federal Circuit for that court to determine whether the district court abused its discretion in enhancing damages and awarding fees.

ARGUMENT

The Patent Act provides that, in cases of patent infringement, district courts "may increase the damages up to three times the amount found or assessed." 35 U.S.C. 284. Under that flexible grant of discretion to district courts, they should consider the totality of the circumstances, based on a preponderance of the evidence, subject to review for abuse of discretion. This Court so held in *Octane* and *Highmark* in a closely related context, and there is no reason for an inconsistent result here. Enhanced damages should not be available in run-of-the-mill cases, but courts traditionally treated Section 284 as a single totality inquiry subject to deferential review without making enhanced damages routine.

By contrast, the Federal Circuit's modern procedure requires objective recklessness by clear and convincing evidence (reviewed de novo), then subjective bad faith by clear and convincing evidence (reviewed for clear error), and finally the enhancement decision itself by a preponderance standard (reviewed for abuse of discretion). There is no basis—in text, history, purpose, or anything else—for that convoluted approach. Moreover, the modern standard severely underdeters bad-faith infringement, as this case shows. According to the Federal Circuit, the district court here was precluded from even considering whether to grant a discretionary enhancement, despite the fact that the jury found Zimmer's infringement to be intentional and in bad faith.

I. *OCTANE* AND *HIGHMARK* INTERPRETED SIMILAR LANGUAGE IN A RELATED CONTEXT TO REQUIRE A TOTALITY INQUIRY SUBJECT TO DEFERENTIAL REVIEW.

In *Octane* and *Highmark*, this Court addressed a related patent provision, 35 U.S.C. 285, which states that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." In *Brooks Furniture Manufacturing, Inc.* v. *Dutailier International, Inc.*, 393 F.3d 1378 (2005), the Federal Circuit had imposed a rigid, two-part test on Section 285's flexible statutory text, requiring a movant to demonstrate that a case was exceptional by offering clear and convincing evidence that the litigation was both objectively baseless and brought in bad faith. Moreover, the Federal Circuit reviewed the first of those requirements—objective baselessness—de novo on appeal. In *Octane* and *Highmark*, this Court unanimously rejected the *Brooks Furniture* standard.

1. In *Octane*, this Court began with the text of Section 285, which "imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases." 134 S. Ct. at 1755-1756. The Court explained that, in assessing whether a case is exceptional (based on the parties' litigation positions and conduct), district courts must engage "in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* at 1756. "[T]here is no precise rule or formula for making these determinations," the Court observed, "but instead equitable discretion should be exercised" in light of the relevant considerations. *Ibid.* (internal quotation marks omitted).

The Court criticized the Federal Circuit's two-part test of objective baselessness and subjective bad faith as "unduly rigid": "[I]t impermissibly encumbers the statutory grant of discretion to district courts." *Octane*, 134 S. Ct. at 1755. The Court reasoned that "a case presenting *either* subjective bad faith *or* exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award." *Id.* at 1757 (emphasis added). By strictly requiring both showings, the Federal Circuit's "formulation superimposes an inflexible framework onto statutory text that is inherently flexible." *Id.* at 1756.

The Court noted that the Federal Circuit had imported the dual-pronged test from *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993) (*PRE*), which involved an exception to the *Noerr-Pennington* doctrine of antitrust law. See *Octane*, 134 S. Ct. at 1757-1758. The Court stressed that "the *PRE* standard finds no roots in the text of [Section] 285, and it makes little sense in the context of determining whether a case is so 'exceptional' as to justify an award of attorney's fees in patent litigation." *Id.* at 1757.

2. The Court also rejected the Federal Circuit's requirement in *Brooks Furniture* that patent litigants demonstrate their entitlement to fees under Section 285 by clear and convincing evidence. *Octane*, 134 S. Ct. at 1758. According to the Court, "Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one." *Ibid.* In the absence of any contrary textual indication, the Court noted, "patent-infringement litigation has always been governed by a preponderance of the evidence standard." *Ibid.* Moreover, "that is the standard generally applicable in civil actions, because

it allows both parties to share the risk of error in roughly equal fashion." *Ibid.* (internal quotation marks omitted).

3. Finally, in *Highmark*, this Court held that the Federal Circuit had to review "*all* aspects of a district court's [fee] determination for abuse of discretion." 134 S. Ct. at 1747 (emphasis added). The Court explained that *Octane* settled the standard of review: "Because [Section] 285 commits [fee awards] to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion." *Id.* at 1748. In addition to the fact that Section 285's text "suggests some deference to the district court upon appeal," the district court "is better positioned" to decide whether a fee award is warranted "because it lives with the case over a prolonged period of time" and is "likely to profit from the experience that an abuse-of-discretion rule will permit to develop." *Id.* at 1748-1749 (quoting *Pierce* v. *Underwood*, 487 U.S. 552, 559-560, 562 (1988)).

II. AS IN *OCTANE* AND *HIGHMARK*, DISTRICT COURTS APPLYING SECTION 284 SHOULD CONSIDER THE TOTALITY OF THE CIRCUMSTANCES, BASED ON A PREPONDERANCE OF THE EVIDENCE, SUBJECT TO REVIEW FOR ABUSE OF DISCRETION.

The analysis here is even more straightforward than in *Octane* and *Highmark*. Without imposing any threshold determination, Section 284 grants discretion over enhanced damages to district courts, resulting in a flexible, totality-of-the-circumstances inquiry. Because nothing in the text suggests otherwise, the standard civil burden of proof governs. And, because the requisite analysis is discretionary, a district

court's determination whether to award enhanced damages should be reviewed for abuse of discretion.

A. Section 284 Gives District Courts The Discretion To Consider The Totality Of The Circumstances.

1. On its face, Section 284 is a broad grant of discretion to district courts. It states simply that, upon a finding of infringement, the district court "may" increase damages "up to three times the amount found or assessed." 35 U.S.C. 284. As this Court has observed, "the word 'may' clearly connotes discretion." *Martin* v. *Franklin Capital Corp.*, 546 U.S. 132, 136 (2005) (quoting *Fogerty* v. *Fantasy, Inc.*, 510 U.S. 517, 533 (1994)). By its terms, Section 284 does not set forth any specific condition that must be satisfied before courts may award enhanced damages; it does not constrain the factors courts may consider in deciding whether to award such damages; and it does not prescribe rigid rules governing how particular factors are to be weighed or what the amount of the enhancement should be (except by setting a cap of treble damages). In short, Section 284 allows district courts to enhance damages "in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Octane*, 134 S. Ct. at 1756.

Indeed, the text of Section 284 confers even broader discretion on district courts than Section 285, which limits fee awards to "exceptional cases." 35 U.S.C. 285. By contrast, Section 284's text does not impose any "constraint[s] on district courts' discretion to award [enhanced damages] in patent litigation." *Octane*, 134 S. Ct. at 1755. Of course, as explained below, there are practical limits on district courts' exercise of their discretion, because courts his-

torically have determined whether enhanced damages are warranted by considering factors that are not routinely satisfied in every case. But as a textual matter, Section 284 is a "statutory grant of discretion to district courts" that is "inherently flexible," *Octane*, 134 S. Ct. at 1756, and thus "[t]here is no precise rule or formula for making these determinations," *ibid.* (quoting *Fogerty*, 510 U.S. at 534).

The Federal Circuit's error here is even worse than the one that this Court corrected in *Octane*. At least in the context of fee awards, the Federal Circuit had adopted a rigid, two-part test—objective baselessness and subjective bad faith—for a phrase that actually appears in Section 285 ("exceptional cases"). Here, the Federal Circuit has adopted an equally rigid and nearly identical two-part test—objective recklessness and subjective bad faith—for a term ("willfulness") that nowhere appears in Section 284. In other words, the Federal Circuit has engrafted a willfulness requirement onto the statute, and then "superimpose[d] an inflexible framework" onto that atextual requirement. *Octane*, 134 S. Ct. at 1756. The net effect is that, just as in *Octane*, the Federal Circuit has "impermissibly encumber[ed] the statutory grant of discretion to district courts." *Id.* at 1755.

2. The Court previously has criticized precisely that type of atextual approach to Section 284. In *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648 (1983), the Court construed Section 284's prejudgment interest clause, which states that "[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement * * * together with interest and costs as fixed by the court." 35 U.S.C. 284. "[A]s a matter of federal common law," however, interest on unliquidated

damages could be awarded only in cases of "bad faith or other exceptional circumstances." *Gen. Motors*, 461 U.S. at 653. General Motors Corporation, which had been held liable for infringement and ordered to pay prejudgment interest, contended that Section 284 should be read to contain that same common-law limitation.

This Court squarely rejected that argument. It reasoned that "[Section] 284 gives a court general authority to fix interest and costs." *Gen. Motors*, 461 U.S. at 653. "On the face of [Section] 284, a court's authority to award interest is not restricted to exceptional circumstances, and there is no warrant for imposing such a limitation." *Ibid.* Here, exactly the same can be said of Section 284's enhanced-damages provision. That provision gives district courts the general authority to enhance damages for infringement, without restricting courts' authority to cases in which patentees demonstrate both objective recklessness and subjective bad faith by clear and convincing evidence. Simply put, the Federal Circuit's strict willfulness prerequisite is flatly inconsistent with both *Octane* and *General Motors*.

3. In *Octane*, the Court noted that it had adopted a totality-of-the-circumstances inquiry for fee awards "in the comparable context of the Copyright Act." 134 S. Ct. at 1756. Here, adopting a totality inquiry without willfulness as a prerequisite would be consistent with the text and judicial treatment of other intellectual property statutes.

a. The Copyright Act and the Lanham Act—unlike the Patent Act—contain express willfulness requirements for certain kinds of remedies. Under the Copyright Act, a copyright owner may elect to recover, in lieu of actual damages, statutory damages

"of not less than $750 or more than $30,000 as the court considers just." 17 U.S.C. 504(c)(1). But the district court "in its discretion may increase the award of statutory damages to a sum of not more than $150,000" if it finds "that infringement was committed *willfully*." 17 U.S.C. § 504(c)(2) (emphasis added). The Copyright Act thus requires that district courts find willful infringement before enhancing statutory damages.

Similarly, the Lanham Act includes a willfulness requirement for certain types of relief. See 15 U.S.C. 1117(a), 1125(c) (trademark dilution cases); *Westchester Media* v. *PRL USA Holdings, Inc.*, 214 F.3d 658, 670 (5th Cir. 2000) ("Injunctive relief may be ordered for a violation, but if a willful violation is proved, the remedy may include restitutionary, compensatory, or specific relief in the form of destruction of offending articles."). If Congress had wished to impose a similar limitation on district courts' discretion with respect to damages enhancements in patent cases, it could and would have said so. See, *e.g.*, *Gen. Motors*, 461 U.S. at 653 ("When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly.").

b. The Lanham Act, however, does not require willfulness for the enhancement of ordinary damages. Rather, it provides that district courts in trademark actions "may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount." 15 U.S.C. 1117(a).[1] The courts of ap-

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[1] Section 1117(a) provides that any enhancement "shall constitute compensation and not a penalty," whereas Section 284 serves compensatory, deterrent, and punitive purposes. See *infra*, pp.

peals have interpreted Section 1117(a) as a broad grant of discretion to district courts.[2] Indeed, several courts of appeals have been explicit that district courts should conduct a totality inquiry in making awards pursuant to Section 1117(a).[3] There is no reason to adopt—as the Federal Circuit has—a different approach in determining whether to enhance damages for patent infringement.

Similarly in the copyright context, when a district court decides what statutory damages are "just," it has "wide discretion" within the applicable range. *Island Software & Computer Serv., Inc.* v. *Microsoft Corp.*, 413 F.3d 257, 265 (2d Cir. 2005); *Nintendo of Am., Inc.* v. *Dragon Pac. Int'l*, 40 F.3d 1007, 1010 (9th Cir. 1994) (same). And in light of the discretionary nature of statutory damages awards, appellate courts review them with deference. See *Douglas* v. *Cun-*

30-31. But whatever the particular purpose for which those statutes are invoked, district courts should consider the totality of the circumstances relevant to that purpose.

[2] *See, e.g.*, *U.S. Structures, Inc.* v. *J.P. Structures, Inc.*, 130 F.3d 1185, 1191 (6th Cir. 1997) ("Section 1117(a) grants a district court a great deal of discretion in fashioning an appropriate remedy in cases of trademark infringement."); *Taco Cabana Int'l, Inc.* v. *Two Pesos, Inc.*, 932 F.2d 1113, 1127 (5th Cir. 1991) (Section 1117(a) "endows the district court with considerable discretion in fashioning an appropriate remedy for infringement."), *aff'd sub nom.*, *Two Pesos, Inc.* v. *Taco Cabana, Inc.*, 505 U.S. 763 (1992).

[3] *See, e.g.*, *Southland Sod Farms* v. *Stover Seed Co.*, 108 F.3d 1134, 1146 (9th Cir. 1997) ("[T]he preferred approach" to Section 1117(a) "allows the district court in its discretion to fashion relief, including monetary relief, based on the totality of the circumstances."); *Texas Pig Stands, Inc.* v. *Hard Rock Cafe Int'l, Inc.*, 951 F.2d 684, 694-695 (5th Cir. 1992) (evaluating a damages award under Section 1117(a) based on "the totality of the circumstances").

ningham, 294 U.S. 207, 210 (1935); *Harris* v. *Emus Records Corp.*, 734 F.2d 1329, 1335 (9th Cir. 1984). Determining whether to increase statutory damages for copyright infringement above the $750 minimum (up to the $30,000 cap) is not importantly different from determining whether to increase damages for patent infringement above the amount of actual damages (up to the treble damages cap). Either requires "the case-by-case exercise" of a district court's "discretion, considering the totality of the circumstances." *Octane*, 134 S. Ct. at 1756. Just as the former is a totality inquiry subject to deferential review, so should be the latter.

B. Section 284 Leaves In Place The Usual Preponderance-Of-The-Evidence Standard.

The Federal Circuit's requirement that patentees prove willfulness by clear and convincing evidence also is inconsistent with *Octane*. See *Seagate*, 497 F.3d at 1371. By its plain text, Section 284 "demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one." *Octane*, 134 S. Ct. at 1758. Moreover, as the Court explained in *Octane*, "patent-infringement litigation has always been governed by a preponderance of the evidence standard." 134 S. Ct. at 1758 (citing *Béné* v. *Jeantet*, 129 U.S. 683, 688 (1889)); see *SRI Int'l* v. *Matsushita Elec. Corp. of Am.*, 775 F.2d 1107, 1123 (Fed. Cir. 1985); *Corning Glass Works* v. *Fed. Glass Co.*, 239 F.2d 674, 675 (6th Cir. 1956). That is the "standard generally applicable in civil actions, because it allows both parties to share the risk of error in roughly equal fashion." *Octane*, 134 S. Ct. at 1758 (internal quotation marks omitted). Here, Congress

did not demonstrate any intent to vary the general preponderance standard.

C. Section 284 Requires That District Courts' Discretionary Enhancements Be Reviewed For Abuse Of Discretion.

Because Section 284 commits damages enhancements to the discretion of district courts, it follows under *Highmark* that all aspects of their decisions—regardless of whether willfulness is treated as a prerequisite—are to be reviewed on appeal for abuse of that discretion. See 134 S. Ct. at 1748-1749. Indeed, this Court has said as much. In addressing Section 284's predecessor provisions, the Court recognized that "the power[] to increase the decree" of damages in patent infringement cases resides "in [the] discretion" of the district court. *Birdsall* v. *Coolidge*, 93 U.S. 64, 69-70 (1876); see *Topliff* v. *Topliff*, 145 U.S. 156, 174 (1892). The Federal Circuit has never reconciled its de novo review of objective recklessness with this Court's decisions in *Birdsall* and *Topliff*.

In the decision below, the Federal Circuit also did not address *Highmark*'s reasons for an abuse-of-discretion standard. First, Section 284's grant of discretion "suggests some deference to the district court upon appeal." 134 S. Ct. at 1748 (quoting *Pierce*, 487 U.S. at 559). Second, the decision whether to award enhanced damages rests on a host of factual and equitable considerations, such as whether the defendant deliberately copied the patent or engaged in other culpable conduct that ignored the patentee's intangible property rights. Because district courts "live[] with" cases "over a prolonged period of time," they are "better positioned" than appellate courts to make these sorts of "multifarious and novel" judg-

ments. *Id.* at 1748-1749 (quoting *Pierce*, 487 U.S. at 559-560, 562). Enhancement decisions are "not susceptible to 'useful generalization' of the sort that de novo review provides," but instead are "likely to profit from the experience that an abuse-of-discretion rule will permit to develop." *Ibid.* (quoting *Pierce*, 487 U.S. at 562).[4]

This case demonstrates why a district court is better positioned to evaluate an infringing defendant's conduct. Here, the district court lived with this case for three years and had a firsthand opportunity to assess witnesses' credibility, trial evidence, and the defendant's conduct throughout the litigation. During that time, as the court observed, Zimmer lost "every argument it advanced at claim construction" and "most of the disputed claims on summary judgment." Pet. App. 52a. Nevertheless, Zimmer "had not changed its product design" by the time of the jury's verdict. *Ibid.* Zimmer's brazenness, the court noted, was "consistent with both [its] market and litigation strategy * * * of competing immediately and aggressively * * * and opt[ing] to worry about the potential legal consequences later." *Ibid.* The court concluded that "Zimmer's able counsel [had] offered the most plausible defenses that were available to them given Zimmer's pre-litigation market conduct. Ultimately, however, the trial proofs demonstrated

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[4] The abuse-of-discretion standard, of course, "does not preclude an appellate court's correction of a district court's legal or factual error: 'A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.'" *Highmark*, 134 S. Ct. at 1748 n.2 (quoting *Cooter & Gell* v. *Hartmarx Corp.*, 496 U.S. 384, 405 (1990)).

that this was not a close case." *Id.* at 52a-53a. The court observed that the facts and circumstances "overwhelmingly favor[ed] enhancement" and that "given the one-sidedness of the case and the flagrancy and scope of Zimmer's infringement," treble damages were appropriate. *Id.* at 117a-119a.

Finally, it is worth noting that *Highmark* does not simply invalidate the Federal Circuit's use of de novo review as a matter of logic. The Federal Circuit itself has described the objective-recklessness prong of *Seagate* as "identical" to the objective-baselessness prong of *Brooks Furniture*. *iLOR, LLC* v. *Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011). Indeed, in holding that *Seagate*'s objective-recklessness prong should be reviewed de novo, the Federal Circuit expressly relied on this Court's decision in *PRE*, just as *Brooks Furniture* had. See *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Associates, Inc.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012). By rejecting *Brooks Furniture* and its importation of *PRE* into Section 285—and thus holding that *all* aspects of a district court's determination should be reviewed for abuse of discretion—this Court swept away whatever precedential support may have existed for the Federal Circuit's de novo standard of review.

III. THE HISTORY OF SECTION 284 IN CONGRESS AND THE COURTS SUPPORTS A TOTALITY INQUIRY REVIEWED FOR ABUSE OF DISCRETION.

Section 284 was long understood by Congress and the courts to require a flexible, totality-of-the-circumstances inquiry subject to review for abuse of discretion. Willfulness was an important factor in

that totality inquiry, but generally was not treated as a prerequisite.

A. District Courts Traditionally Conducted A Unified Inquiry That Considered The Totality Of The Circumstances.

1. From the very beginning, when Congress replaced mandatory trebling of damages with discretionary enhancement in 1836, it authorized district courts to enhance damages "according to the circumstances of the case." Patent Act of 1836, ch. 357, § 14. Indeed, Congress opted for a system of discretionary enhancement precisely because "[e]xperience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits." *Seymour* v. *McCormick*, 57 U.S. 480, 488 (1853). Thus, as a matter of both statutory text and experience, district courts correctly understood their task as evaluating the circumstances of each particular case in deciding whether to enhance damages.

Consistent with that understanding, this Court and others uniformly recognized throughout the 1800s and early to mid-1900s that enhancement decisions required a totality inquiry. See *Tilghman* v. *Proctor*, 125 U.S. 136, 143-144 (1888) ("[T]he court may, whenever the circumstances of the case appear to require it, inflict vindictive or punitive damages, by rendering judgment for not more than thrice the amount of the verdict."); *Schwarzel* v. *Holenshade*, 21 F. Cas. 772, 773 (S.D. Ohio 1866) ("The question for the decision of the court is, therefore, whether the circumstances of this case require the court, in the exercise of a sound discretion, to treble the damages assessed by the jury."); see also *Activated Sludge* v. *Sanitary Dist. of*

Chicago, 64 F. Supp. 25, 34-35 (N.D. Ill. 1946); *Fox* v. *Knickerbocker Engraving Co.*, 158 F. 422, 428-429 (C.C.S.D.N.Y. 1908); *Brodie* v. *Ophir Silver Min. Co.*, 4 F. Cas. 202, 203-204 (C.C.D. Cal. 1867); *Guyon* v. *Serrell*, 11 F. Cas. 132, 133 (C.C.S.D.N.Y. 1847).

2. In 1952, Congress reorganized the patent laws to account for the merger of law and equity. In its new, unified damages provision, Congress stated simply that a district court "may increase the damages up to three times the amount found or assessed," 35 U.S.C. 284 (1958), without requiring that the court do so according to the circumstances of the case. But as this Court has recognized, Section 284 only "consolidated" the separate damages provisions for law and equity, and "[t]he stated purpose of the codification was merely 'reorganization in language to clarify the statement of the statutes.'" *Gen. Motors*, 461 U.S. at 652 n.6 (quoting H.R. Rep. No. 1923, 82d Cong., 2d Sess. 10, 29 (1952)). Congress's changes were not meant to be substantive, and the new Section 284 contained no language limiting a district court's discretion to weigh the circumstances of each case.

District courts therefore correctly continued to engage in a totality-of-the-circumstances inquiry in assessing enhanced damages. See, *e.g.*, *Am. Safety Table Co.* v. *Schreiber*, 415 F.2d 373, 379 n.11 (2d Cir. 1969) (after "considering the totality of circumstances," court increased damages by 25 percent for infringement not "executed with the ultimate in willfulness" but "with deliberation and abandon"); *Orthman Mfg., Inc.* v. *Chromalloy Am. Corp.*, 512 F. Supp. 1284, 1295 (C.D. Ill. 1981) ("The measure of damages which is appropriate in a particular case should be determined with reference to all relevant circumstances shown to affect the litigation."); *White* v. *Mar-Bel*,

Inc., 369 F. Supp. 1321, 1326 (M.D. Fla. 1973) (considering "all of the circumstances of this case" and noting that "trebling of damages in patent cases is always entrusted to the discretion of the Court").

3. Significantly, although courts from the 1830s through the mid-1900s routinely conducted a totality inquiry, enhancing damages was not routine by any means. Congress's shift from mandatory to discretionary enhancement meant that increased damages should not be automatic, and accordingly courts exercised their discretion to enhance damages only when necessary to serve the purposes of the statute. See *Armstrong* v. *Emerson Radio & Phonograph Corp.*, 179 F. Supp. 95, 129 (S.D.N.Y. 1959) (treble damages are not awarded in run-of-the-mill cases); see also *Brown Bag Filling Mach. Co.* v. *Drohen*, 175 F. 576, 577 (2d Cir. 1910) (no enhancement for infringement that exhibited only "the usual conditions obtaining in patent causes"); *Creagmile* v. *John Bean Mfg. Co.*, 32 F. Supp. 646, 648-649 (S.D. Cal. 1940) (no enhancement where defendants' "attempt[s] to nullify, avoid and get around the lawful claims of an invention" were "no more * * * than any other ordinary infringer does after notice of the invasion of patent rights").

B. District Courts Generally Did Not Treat Willfulness As A Prerequisite For Enhanced Damages.

In addition to the fact that the text of the early Patent Acts did not permit courts to treat willfulness as a requirement for enhanced damages, it would not have made sense to do so. District courts increased damages to serve various statutory purposes, which necessitated consideration of a wide range of circumstances beyond the wrongfulness of a defendant's in-

fringement. A defendant's heightened culpability was treated as a sufficient condition for enhancing damages, but not as a necessary one.

1. From 1836 forward, discretionary enhancement was understood to serve multiple purposes. The first of these was to compensate patentees. See, *e.g.*, *Allen* v. *Blunt*, 1 F. Cas. 450, 460 (C.C.D. Mass. 1846); *Carlock* v. *Tappan*, 5 F. Cas. 76, 76 (C.C.S.D.N.Y. 1843). That need was particularly prominent in the early days of the patent system, when patentees lacked access to equitable relief and enhanced damages could serve as a rough substitute for an injunction. See *Seagate*, 497 F.3d at 1378 (Gajarsa, J., concurring); *Beacon Folding Mach. Co.* v. *Rotary Mach. Co.*, 17 F.2d 934, 935 (D. Mass. 1927).

Courts, however, continued to enhance damages for compensatory purposes even after the availability of injunctive relief, in part due to the difficulty of calculating precise actual damages. See *Clark* v. *Wooster*, 119 U.S. 322, 326 (1886) ("It is a general rule in patent cases that established license fees are the best measure of damages that can be used. There may be damages beyond this * * * but these are more properly the subjects of allowance by the court under the authority given to it to increase the damages."); *Armstrong* v. *Emerson Radio & Phonograph Corp.*, 132 F. Supp. 176, 179 (S.D.N.Y. 1955); see also *Trio Process Corp.* v. *L. Goldstein's Sons, Inc.*, 638 F.2d 661, 662 (3d Cir. 1981) (discussing Section 284's compensatory function).[5]

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[5] In addition to compensating a patentee for losses caused by the infringement itself, courts relied on Section 284 to compensate the patentee for the expenses and delays of litigation. See, *e.g.*, *Teese* v. *Huntingdon*, 64 U.S. 2, 9 (1859). The need to compensate some prevailing parties for their litigation expenses ultimately led to the

In addition, courts frequently used damages enhancements to punish and deter defendants who exhibited some heightened degree of culpability in ignoring patent rights, either in their infringement or subsequent litigation conduct. See *Tilghman*, 125 U.S. at 143-144 (noting that the case-specific circumstances could warrant "inflict[ing] vindictive or punitive damages"); *Activated Sludge*, 64 F. Supp. at 36; *Wilson* v. *Union Tool Co.*, 275 F. 624, 631 (S.D. Cal. 1921).

2. Because courts employed Section 284 for compensatory purposes as well as deterrent and punitive ones, willfulness obviously was not a prerequisite to awarding enhanced damages. Instead, this Court and others treated willful infringement as a factor in the totality analysis. See, *e.g.*, *Day* v. *Woodworth*, 54 U.S. 363, 372 (1851) ("[I]f, in the opinion of the court, the defendant has not acted in good faith, or has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff, the court may increase the amount of the verdict, to the extent of trebling it."); *Grant Paper Box Co.* v. *Russell Box Co.*, 106 F. Supp. 616, 618-619 (D. Mass. 1952) (reaching no conclusion as to willfulness but enhancing damages by 50 percent in view of infringer's "careless[ness] in the construction of the patent" and misconduct during litigation); *Bredin* v. *Nat'l Metal Weather Strip Co.*, 182 F. 654, 662 (C.C.W.D. Pa. 1910) (considering willfulness along with abusive competitive practices); *Nat'l Folding Box & Paper Co.* v. *Elsas*, 81 F. 197, 197 (C.C.S.D.N.Y. 1897) (doubling assessed damages on the basis of both "deliberate" infringement and

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1946 Patent Act, which permits courts to award attorney's fees in exceptional cases. See 35 U.S.C. 285.

subsequent "spiriting away of the books" to inhibit redress); *Russell* v. *Place*, 21 F. Cas. 57, 58 (C.C.N.D.N.Y. 1871) (noting that defendant's conduct "seem[ed] deliberate and intentional," but declining to make a concrete finding of willfulness and enhancing for compensatory reasons); *Guyon*, 11 F. Cas. at 133 (noting "evidence * * * tending to impeach the good faith of the defendants" but declining to enhance damages because "they abandoned their machine some time before the commencement of the suit").

3. Even when courts focused on the need to deter or punish infringement, they did not treat willfulness as a prerequisite to enhancement. To be sure, courts variously said that enhanced damages could be warranted for conduct that was

- "actuated by malice or bad faith," *Brown Bag Filling Mach. Co.*, 175 F. at 577;
- "conscious and deliberate," *Carter Prods., Inc.* v. *Colgate-Palmolive Co.*, 214 F. Supp. 383, 412 (D. Md. 1963); "deliberate and intentional," *Russell*, 21 F. Cas. at 58;
- "wanton or malicious," *Seymour*, 57 U.S. at 489; "wanton and persistent," *Brodie*, 4 F. Cas. at 203-204; "wanton and persevering," *Allen*, 1 F. Cas. at 460; "wanton or willful or aggravated," *Wilson*, 275 F. at 631;
- "willful or grossly careless," *Hartford Nat. Bank & Trust Co.* v. *E.F. Drew & Co.*, 188 F. Supp. 353, 356 (D. Del. 1960); "flagrant," *Lyon* v. *Donaldson*, 34 F. 789, 793 (C.C.N.D. Ill. 1888);

- "aggravated," *McCormick* v. *Seymour*, 15 F. Cas. 1329, 1336 (C.C.N.D.N.Y. 1854); "somewhat aggravated," *Parker* v. *Corbin*, 18 F. Cas. 1122, 1122 (C.C.D. Ohio 1848);
- "unreasonabl[e] or oppressive[]," *Stimpson* v. *The Railroads*, 23 F. Cas. 103, 104 (3d Cir. 1847); "oppressive or fraudulent," *Laskowitz* v. *Marie Designer, Inc.*, 119 F. Supp. 541, 554 (S.D. Cal. 1954); "unreasonable and unjustifiable," *Fox*, 158 F. at 428-429; "unwarranted and inexcusable," *Wensel* v. *Gold Hill Hardware Mfg. Co.*, 21 F.2d 974, 977 (S.D. Cal. 1927); or
- "careless[]," *Grant Paper Box Co.*, 106 F. Supp. at 619.

The lesson of these cases is simple: district courts often awarded enhanced damages when the infringing defendant's conduct demonstrated heightened culpability or wrongfulness, typically beyond mere negligence. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH* v. *Dana Corp.*, 383 F.3d 1337, 1342 (Fed. Cir. 2004) (en banc) ("In discussing 'willful' behavior and its consequences, the Supreme Court has observed that '[t]he word 'willful' is widely used in the law, and although it has not by any means been given a perfectly consistent interpretation, it is generally understood to refer to conduct that is not merely negligent.'") (quoting *McLaughlin* v. *Richland Shoe Co.*, 486 U.S. 128, 133 (1988)). It is hardly surprising that courts regularly invoked Section 284 in response to intentional or reckless—*i.e.*, willful—infringement. Those types of infringement are the most deserving of deterrence or punishment.

But all of this Court's cases, and virtually all of the lower courts' cases, treated willfulness only as a *sufficient* condition for enhancement, not as a *necessary* condition. Confusing that distinction was the Federal Circuit's crucial error in *Seagate*. See *Seagate*, 497 F.3d at 1381 (Gajarsa, J., concurring) ("[T]he Supreme Court cases * * * do not hold that a finding of willfulness is *necessary* to support an award of enhanced damages. * * * At most, those cases merely stand for the uncontroversial proposition that a finding of willfulness is *sufficient* to support an award of enhanced damages.") (emphases in original); see also *Dowling* v. *United States*, 473 U.S. 207, 227 n.19 (1985) (noting that "treble damages" are "available" for "willful infringement"); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (noting that a plaintiff "could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision"); *Seymour*, 57 U.S. at 488; *Day*, 54 U.S. at 372. Simply put, as a historical matter, the wrongfulness of a defendant's conduct was not a prerequisite to enhancement, but rather was an important factor in the totality of circumstances.

C. Appellate Courts Reviewed Enhancement Decisions For Abuse Of Discretion.

In accord with this Court's decisions in *Birdsall* and *Topliff*, see *supra*, p. 24, every court of appeals to consider the question held that damages enhancements should be reviewed for abuse of discretion. See *Dixie Cup Co.* v. *Paper Container Mfg. Co.*, 169 F.2d 645, 651 (7th Cir. 1948) ("This admittedly is a matter in the discretion of the court below whose judgment we would be authorized to disturb only upon a show-

ing of an abuse of such discretion."); see also *Troy Co.* v. *Prods. Research Co.*, 339 F.2d 364, 368 (9th Cir. 1964); *Randolph Labs.* v. *Specialties Dev. Corp.*, 213 F.2d 873, 875 (3d Cir. 1954); *Middleton* v. *Wiley*, 195 F.2d 844, 847 (8th Cir. 1952); *Enter. Mfg. Co.* v. *Shakespeare Co.*, 141 F.2d 916, 920 (6th Cir. 1944); *Amusement Corp. of Am.* v. *Mattson*, 138 F.2d 693, 697 (5th Cir. 1943); *Overman Cushion Tire Co.* v. *Goodyear Tire & Rubber Co.*, 66 F.2d 361, 362 (2d Cir. 1933). Different standards of review are a product of recent decades, and de novo review of any aspect of a district court's discretionary enhancement decision dates only to the Federal Circuit's 2012 decision in *Bard*.

IV. A TOTALITY INQUIRY INFORMED BY HISTORY WILL PROTECT PROPERTY RIGHTS AND PROMOTE INNOVATION.

As the history shows, the Federal Circuit's *Seagate* test is not necessary to prevent district courts from routinely enhancing damages. The answer to that concern—rather than preserving a multi-step process that has no mooring in text or history—is to make clear that district courts should resume considering the factors that historically guided their case-by-case exercise of discretion.

A. The Defendant's Degree Of Culpability Typically Will Be The Central Factor In The Totality Inquiry.

Because prevailing patentees are now able to seek injunctions, ongoing royalties, and attorney's fees as potential compensation, the most common purpose for Section 284 in modern times is to punish and deter culpable conduct. When a district court considers

whether to enhance damages for those reasons (only, of course, after infringement of a valid patent has been established), the principal question should be whether and to what extent the defendant's conduct was wrongful or culpable in light of the goals of the patent system. "The paramount determination in deciding to grant enhancement and the amount thereof is the egregiousness of the defendant's conduct based on all the facts and circumstances." *Read Corp.* v. *Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992).

In answering that question, the wrongfulness of a defendant's conduct should not be determined—as the Federal Circuit currently holds—by a rigid, two-step test of objective recklessness and subjective bad faith. Nor should the determination of wrongfulness be—as the Federal Circuit also holds—a mere prelude to a subsequent, discretionary weighing of various factors. Rather, consistent with the statutory text, the district court should conduct a single weighing of all factors—whether aggravating or mitigating—that are relevant to whether and to what extent damages should be enhanced. See *Octane*, 134 S. Ct. at 1756 n.6 (noting that district courts determine copyright fee awards by "consider[ing] a 'nonexclusive' list of 'factors * * * and the need in particular circumstances to advance considerations of compensation and deterrence.'" (quoting *Fogerty*, 510 U.S. at 534 n.19)).

As part of that weighing, the district court should consider whether the defendant's infringement was willful in the classic sense of the patent law—*i.e.*, whether the infringement was more than "merely negligent." *McLaughlin*, 486 U.S. at 133. That aggravating factor, considered alongside any mitigating factors, typically will determine if an enhancement is warranted and in what amount. In the event of an en-

hancement, the court should set the amount at a level commensurate with the infringer's culpability and any other considerations that militate in favor of or against enhancement. See *Providence Rubber Co.* v. *Goodyear*, 76 U.S. 788, 804 (1869) (noting that remedies for infringement "may be increased or mitigated according to the complexion of the conduct of the offender"); 5 D. Chisum, Patents § 20.03[4][b][vi] (1991) (To treble damages, "the court's assessment of the level of culpability must be high.").

B. Courts Should Determine The Degree Of A Defendant's Culpability By Focusing On Historically Important Considerations.

1. In assessing whether an infringer's conduct bears a heightened degree of culpability (and thus is willful in the classic sense of patent law), courts have taken into account a number of different considerations. See *Read*, 970 F.2d at 827. Among them, *first*, courts considered whether the defendant deliberately copied the patented invention.[6] *Second*, courts con-

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[6] See, *e.g.*, *Lam, Inc.* v. *Johns-Manville Corp.*, 668 F.2d 462, 475 (10th Cir. 1982) (considering "whether the infringer deliberately copied the ideas or design of another * * * [i]n determining whether an infringer acted in such bad faith as to merit an increase in the damages awarded against him"); *Milgo Electronic Corp.* v. *United Bus. Comm'ns*, 623 F.2d 645, 666 (10th Cir. 1980) ("Many courts have held that faithful copying of a patented product shows an intentional disregard for the patent owner's rights and supports an award of increased damages."); *Am. Safety Table Co.*, 415 F.2d at 378 ("Where * * * a patent infringement is willful, intentional, and deliberate an award is proper. This rule has been applied where a patented device was faithfully copied, such a faithful copying revealing an intentional disregard of patent rights." (internal quotation marks, footnote, and ellipsis omitted)); *Coleman Co.* v. *Holly Mfg. Co.*, 269 F.2d 660, 666 (9th Cir. 1959) ("[A] faithful copy-

sidered whether the defendant continued to infringe after it knew or reasonably should have known of the patent.[7] *Third*, courts considered whether the defendant, when it knew or should have known of the patent, reasonably investigated and evaluated the possibility of infringement.[8] *Fourth*, courts consid-

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ing reveals an intentional disregard of the appellee's patent rights" sufficient to justify an award of enhanced damages.); *Lyon*, 34 F. at 791 (granting enhancement where "defendant has taken * * * two features of his machine bodily from plaintiff's machine"); *Burleigh Rock-Drill Co* v. *Lobdell*, 4 F. Cas. 750, 751 (C.C.D. Mass. 1875) ("This is not a case of wilful infringement, or of the use of a device identical with the patented one, or mere colorable attempt to evade it.").

[7] See, *e.g.*, *Read*, 970 F.2d at 827 (Courts should consider "[r]emedial action by the defendant."); *Intra Corp.* v. *Hamar Laser Instruments, Inc.*, 662 F. Supp. 1420, 1439 (E.D. Mich. 1987) (limiting enhanced damages because defendant "voluntarily ceased manufacture and sale of infringing systems during the pendency of this litigation"); *Vortex Mfg. Co.* v. *Ply-Rite Contracting Co.*, 33 F.2d 302, 313 (D. Md. 1929) (finding "the fact that defendants discontinued their infringing practices is not sufficient to save them from both an injunction, and from an accounting in damages," but the case did not "warrant the imposing of treble damages"); *Fox*, 158 F. at 428-429 (awarding treble damages where defendant "persisted in [infringing] after knowledge and notice" and "continued to infringe after suit brought"); *Emerson* v. *Simm*, 8 F. Cas. 640, 641 (C.C.D.N.J. 1873) (declining to enhance damages where defendants "abandoned all the patented appliances to the machine, when notified of their infringement, and before the suit was commenced"); *Brodie*, 4 F. Cas. at 203 (declining to enhance damages where "there is no evidence that any [of the infringing products] have been made or used by [defendants] since they had notice of the patent"); *Guyon*, 11 F. Cas. at 133.

[8] *Read*, 970 F.2d at 827 (Courts should consider "whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed."); *King Instrument Corp.* v.

ered whether the question of liability—taking into account issues of infringement and invalidity—was close or clear-cut based on facts known to defendant at the time of infringement.[9] Although those four considerations were not exhaustive in determining whether a defendant's conduct was aggravated and other circumstances could be relevant in any particular case, they have provided valuable guidance to district courts in determining the degree of a defendant's culpability.

2. Focusing on those historical considerations should provide meaningful protection to less culpable

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Otari Corp., 767 F.2d 853, 867 (Fed. Cir. 1985) (examining "whether Otari secured legal advice and whether it reasonably felt that its activities fell within its own claims which may be patentably distinct."); *Lam*, 668 F.2d at 475 (Courts should consider "whether the infringer, when he knew or should have known of the other's patent protection, reasonably investigated the scope of the patent and formed a good faith belief that the patent was invalid or that it was not infringed.").

[9] *See, e.g.*, *Mowry* v. *Whitney*, 81 U.S. 620, 653 (1871) (finding no culpability where infringing process was the subject of a patent later invalidated for overlapping with plaintiff's patent); *B.F. Goodrich Co.* v. *Consol. Rubber Tire Co.*, 251 F. 617, 624 (7th Cir. 1918) (finding no culpability for infringement occurring after the patent was erroneously adjudicated invalid); *Clark* v. *Schieble Toy & Novelty Co.*, 248 F. 276, 284 (6th Cir. 1917) (finding no culpability where a patent was erroneously granted on the infringing product itself); *Philadelphia Rubber Works Co.* v. *U.S. Rubber Reclaiming Works*, 276 F. 600, 609 (W.D.N.Y. 1920) ("The validity of the * * * patent, from the outset to the final decision by the Circuit Court of Appeals, was debatable."); *Consol. Rubber Tire Co.* v. *Diamond Rubber Co.*, 226 F. 455, 464 (S.D.N.Y. 1915) (declining to enhance damages for the period during which the patent's validity remained "open to honest question"); *Toledo Computing Scale Co.* v. *Moneyweight Scale Co.*, 178 F. 557, 567 (C.C.N.D. Ill. 1910) ("After the reissue, the validity and novelty were debatable questions.").

infringers. Most obviously, two of the central historical considerations—whether the defendant deliberately copied a patented invention, and whether the defendant continued to infringe after actual or constructive knowledge of the patent—protect inadvertent or good-faith infringers against an award of enhanced damages.[10] Even in cases where one of those factors is present, the district court can tailor the amount of any enhancement to the degree of the defendant's culpability, which may take into account (for instance) what the defendant knew about its infringement or how long the infringement continued post-discovery.

The third historical consideration—whether the defendant reasonably investigated and evaluated the possibility of infringement—will often operate in a defendant's favor by allowing it to demonstrate a good-faith response to claims of infringement. See, *e.g.*, *OPTi, Inc.* v. *VIA Techs., Inc.*, 2014 WL 3853429, at *2 (E.D. Tex. Aug. 4, 2014) (declining to enhance damages where defendant upon notice "investigated whether its products infringed as alleged"); *Baden Sports, Inc.* v. *Kabushiki Kaisha Molten*, 2007 WL 2790777, at *5 (W.D. Wash. Sept. 25, 2007) (declining

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[10] In evaluating the defendant's copying of a patented invention and its continued infringement, the court may take into account whether the defendant had an objectively reasonable belief at the time that the patent was invalid. Doing so is not barred by *Commil USA, LLC* v. *Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015), which held that a good-faith belief in invalidity is not a defense to a charge of induced infringement. *Commil*'s holding was dictated by the statutory text of the inducement provision, 35 U.S.C. 271(b), which focuses only on infringement—a separate issue from invalidity. See 135 S. Ct. at 1928. No such textual bar is presented here, and there is no apparent reason why a contemporaneous reasonable belief in invalidity should not be part of the totality inquiry.

to enhance damages where defendant "presented evidence at trial suggesting that its technical department advised [it] that there was a very good chance that the '835 patent was invalid"); *Lawrence-Williams Co.* v. *Societe Enfants Gombault Et Cie*, 52 F.2d 774, 778 (6th Cir. 1931) (Treble damages usually are not justified "where a defendant infringes a patent under the advice of counsel that it is invalid."). Moreover, the defendant's response should be evaluated in light of all the relevant facts, including the nature of the patentee's claim and whether it provided adequate notice of infringement.

The reasonable-investigation consideration often will operate in defendants' favor for an additional reason. In 2011, Congress enacted 35 U.S.C. 298, which provides that "[t]he failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent." Section 298 is meant to "protect attorney-client privilege and to reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes." H.R. Rep. No. 98, 112th Cong., 1st Sess. 53 (2011).

As a result of Section 298, a patentee seeking an enhancement may not rely on evidence that the defendant failed to obtain legal advice about the possibility of infringement (although the patentee may still introduce evidence that the defendant failed to consult non-legal sources, like its own engineers). The infringing defendant, however, may introduce evidence that it sought and received good-faith legal advice in order to rebut an allegation that its infringement was sufficiently culpable to warrant enhanced

damages. The ability of alleged infringers to introduce evidence of a variety of good-faith responses, when coupled with the protection of Section 298, provides additional assurance that enhancements will not become the norm absent *Seagate*.

The fourth historical consideration—the closeness of the case—further protects innocent infringers by ensuring that they will not be subject to enhanced damages for good-faith mistakes on difficult and novel questions. See, *e.g.*, *Deere & Co.* v. *Int'l Harvester Co.*, 658 F.2d 1137, 1146 (7th Cir. 1981); *Philadelphia Rubber Works*, 276 F. at 609. Petitioners' position is *not* that enhanced damages should be awarded in any case, or even most cases, of infringement. Many cases are close calls, and defendants typically should not be subject to damages enhancements when they adopted reasonable positions on the basis of available facts.

C. In Certain Cases, The Defendant's Degree Of Culpability Will Not Determine The Totality Inquiry.

Even when the defendant's infringement bears a degree of heightened culpability, that does not mean such culpability is either a strict prerequisite or an automatic trigger for enhanced damages. The wrongfulness of a defendant's conduct remains part of the case-by-case inquiry committed to the discretion of the district court. Thus, even if a defendant's conduct is not aggravated in any sense, an enhancement nevertheless may be warranted because "a successful plaintiff, through no fault of its own, [is] unable to prove the real extent of damage caused by the infringement." *Seagate*, 497 F.3d at 1378 (Gajarsa, J., concurring). Alternatively, "the district court might reasonably determine that monetary relief in the form

of enhanced damages is more appropriate than an injunction." *Ibid.*

Conversely, even when a defendant's infringement is highly culpable, the district court nevertheless may decline to increase damages. For example, the court may take into account the defendant's size and financial condition, and deny an enhancement that would threaten to bankrupt the noninfringing portion of the defendant's business. See, *e.g.*, *Read*, 970 F.2d at 827 (noting as a consideration the "[d]efendant's size and financial condition"); *Kori Corp.* v. *Wilco Marsh Buggies & Draglines, Inc.*, 561 F. Supp. 512, 533 (E.D. La. 1982) (Enhanced damages "should not unduly prejudice the defendants' non-infringing business."). The nature of the patentee's business also may factor into the analysis. See, *e.g.*, *Schwarzel*, 21 F. Cas. at 773-774; *Bell* v. *McCullough*, 3 F. Cas. 108, 109 (C.C.S.D. Ohio 1858). Enhancement may be less appropriate, for instance, when requested by a patentee that relies on the threat of treble damages in order to exact exorbitant licensing fees from practicing entities. Cf. *eBay Inc.* v. *MercExchange, LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring). Enhancing damages in that situation may not serve the law's goal of incentivizing innovation. *Id.* at 396-397.

V. THE FEDERAL CIRCUIT'S CURRENT APPROACH IS UNSUPPORTABLE.

The Federal Circuit has never squared its willfulness requirement with Section 284's plain text and historical understanding. But even if the willfulness of an infringer's conduct were a prerequisite to an award of enhanced damages, that requirement should not look anything like the *Seagate* test. The Federal Circuit has based that test on misinterpretations of

this Court's decision in *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47 (2007). Moreover, even if the *Seagate* test stands, respondents still should not prevail. In the years since *Seagate*, the Federal Circuit has doubled down on its novel approach by adopting de novo review of objective recklessness and by permitting bad-faith infringers to avoid enhanced damages based on defenses first developed in litigation. At a minimum, this Court should correct the Federal Circuit's post-*Seagate* law and allow Section 284 to achieve its goal of deterring bad-faith infringement.

A. The Federal Circuit Has Never Reconciled A Willfulness Requirement With The Statutory Text Or Historical Practice.

Beginning primarily in the 1960s, a few circuit courts sporadically moved away from the unified, totality-of-the-circumstances inquiry. They sometimes treated enhancement decisions as a two-step process: a threshold inquiry into willfulness based on the totality of the circumstances, followed by a discretionary weighing of other factors to determine whether and to what extent an enhancement was appropriate. See *Lam*, 668 F.2d at 474; *Union Carbide Corp.* v. *Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960); but see *Trio Process Corp.*, 638 F.2d at 662 (rejecting willfulness prerequisite). As far as petitioners are aware, these courts neither squared their new approach with Section 284's text nor justified their shift away from the historical totality standard.

The Federal Circuit's early cases vacillated on whether willfulness was a strict prerequisite to enhanced damages under Section 284. Compare *Rite-Hite Corp.* v. *Kelley Co.*, 819 F.2d 1120, 1126 (1987), with *Beatrice Foods Co.* v. *New England Printing &*

Lithographing Co., 923 F.2d 1576, 1578-1579 (1991). But by the mid-1990s, the Federal Circuit had endorsed the "two[-]step process" for enhancement, although willfulness remained based on the totality of the circumstances. *Jurgens* v. *CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996). Like other courts, the Federal Circuit made little effort to ground that willfulness requirement in Section 284's text, history, or purposes.

B. The Federal Circuit Has Erred In Interpreting The Standard For Willfulness.

In 2007, the Federal Circuit in *Seagate* departed further from historical tradition by converting willfulness into a rigid, two-step test not based on the totality of the circumstances. *Seagate* purported to borrow its test from this Court's decision in *Safeco Insurance Co. of America* v. *Burr*, which involved the meaning of the statutory term "willfully" in the Fair Credit Reporting Act. Here, of course, Section 284's plain text does not contain any reference to willfulness. But even setting aside that obvious statutory difference, the Federal Circuit has erred in its treatment of *Safeco*.

1. As an initial matter, *Seagate* failed to explain why the interpretation of an express statutory term in a wholly unrelated context is relevant to patent law. Courts have consistently recognized that the concept of "willfulness" is context-dependent. As *Safeco* itself pointed out, the term "'willfully' is a 'word of many meanings.'" 551 U.S. at 57 (quoting *Bryan* v. *United States*, 524 U.S. 184, 191 (1998)); *Smith* v. *Wade*, 461 U.S. 30, 63 n.3 (1983) (Rehnquist, C.J., dissenting) (noting that the term "willful" has "no fixed meaning"). In light of its inherent plasticity, context is

crucially important in determining the meaning of willfulness within a particular body of law. See *ibid.* (arguing with respect to willfulness that "for the meaning intended in a particular context, reference must be had to the decisions at issue").

Because Section 284 does not use the term "willfulness," the relevant context must be drawn from history. As explained above, in the 170 years preceding *Seagate*, the term "willful" in patent infringement cases signified a level of heightened culpability greater than negligence on the part of the infringing defendant. See *supra*, pp. 32-34. The Federal Circuit did not need to look beyond the historical meaning of willfulness in the patent context. In any event, the Federal Circuit should have reached the same conclusion under *Safeco*, which adopted "the traditional understanding of willfulness" as either "acts known to violate" or "reckless disregard of" the law. 551 U.S. at 56-57, 59. The customary test for willfulness—*i.e.*, knowledge or recklessness—asks simply whether the defendant's infringement was more than merely negligent.

2. Even assuming that *Safeco* sets a different standard for willfulness than the patent law, and that the Federal Circuit was justified in looking outside the patent law for its standard, *Seagate* and subsequent cases are still wrong. The Federal Circuit has misunderstood *Safeco* in two crucial respects.

a. As an initial matter, the Federal Circuit has ignored that willfulness includes knowing and intentional infringement in addition to reckless infringement. As the *Safeco* Court explained, "where willfulness is a statutory condition of civil liability," the term generally means "not only knowing violations of a standard, but reckless ones as well." 551 U.S. at 57.

In other words, the Court treated "knowing violation[s]" and "reckless ones" as different species of willfulness. *Ibid.*

By contrast, the Federal Circuit held in *Seagate* that "to establish willful infringement," a patent holder must prove recklessness by clear and convincing evidence. 497 F.3d at 1371. Although the Federal Circuit acknowledged that willfulness merely "*includes* reckless behavior," *ibid.* (emphasis added), it has treated *Seagate*'s test for recklessness as the exclusive test for willfulness. The Federal Circuit has repeatedly reversed enhanced damages awards under the *Seagate* test, even in the face of findings that a defendant's infringement was knowing or intentional. This case is a perfect example: the district court found that Zimmer intentionally copied a patented product in bad faith, see Pet. App. 52a-53a, and the Federal Circuit nevertheless reversed the damages enhancement.

Knowledge and intent are a far more straightforward way than recklessness to analyze cases like this one. When a defendant knows of a patent and copies the patented invention, absent an objectively reasonable belief that the patent is invalid, the defendant's infringement is knowing or intentional (and thus willful). By ignoring the role of knowledge and intent in the analysis, the Federal Circuit has opened an indefensible loophole in willfulness: defendants who intentionally infringe patent rights—which is to say, the most culpable of all infringers—can escape enhanced damages by arguing that their actions were not reckless. That perverse result does not make any sense.[11]

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[11] The Federal Circuit recently suggested that enhancement can rest on either "actual knowledge" of infringement or "proof of will-

b. Even assuming cases like this one should be analyzed as reckless violations rather than knowing or intentional ones, the Federal Circuit has wrongly interpreted recklessness. Specifically, the Federal Circuit has held since *Seagate* that arguments developed solely for litigation and not known to the infringer at the time of infringement can preclude a finding of recklessness, unless they are shown to be unreasonable by clear and convincing evidence. In essence, the defendant's ability to present any marginally nonfrivolous defense categorically defeats a patentee's request for enhanced damages. In the past year alone, the Federal Circuit has reversed several enhanced damages awards against bad-faith infringers simply because they advanced minimally plausible, *post hoc* defenses. See, *e.g.*, *Innovention Toys, LLC* v. *MGA Entm't, Inc.*, 611 Fed. Appx. 693, 700-701 (Fed. Cir. 2015); *Global Traffic Techs. LLC* v. *Morgan*, 2015 WL 3513416, at *7-8 (Fed. Cir. June 4, 2015); *Carnegie Mellon Univ., Ltd.*, 2015 WL 4639309, at *13-15.

That approach cannot be squared with *Safeco*.[12] To be sure, *Safeco* rejected the argument that "evidence

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fulness" under the two-prong *Seagate* test. *Carnegie Mellon Univ.* v. *Marvell Tech. Grp., Ltd.*, 2015 WL 4639309, at *12 (Aug. 4, 2015). That statement simply repeats one of *Seagate*'s basic errors, by equating willfulness with recklessness. Moreover, the Federal Circuit has never given any content to the "actual knowledge" requirement, and it has repeatedly reversed damages enhancements in cases where, as here, the defendant knew that it was infringing. See *id.* at *13-14.

[12] It also cannot be squared with this Court's prior decisions regarding Section 284. In *Topliff*, for instance, this Court held that it would "not have disturbed the decree of the court below if it had seen fit to increase the damages," even though the "novelty" of the

of subjective bad faith can support a willfulness finding" when the defendant adopted an "objectively reasonable" interpretation of its legal duties. 551 U.S. at 70 n.20. But as the Court explained, "Congress could not have intended such a result for those who *followed* an interpretation that could reasonably have found support in the courts, whatever their subjective intent may have been." *Ibid.* (emphasis added). In other words, the relevant question is whether, *at the time of its disputed conduct*, the defendant adopted an objectively reasonable position, whatever its subjective motivations.[13] See *Prosser and Keeton on Torts*, § 34 at 213-214 (5th ed. 1984) (noting that willfulness is often found where a defendant "has proceeded in disregard of a high and excessive degree of danger, either known to him or apparent to a reasonable person *in his position*") (emphasis added).

The Federal Circuit's expansion of *Seagate* is a world apart from that: it allows infringers who acted in bad faith to put forward after-the-fact defenses on which they never relied at the time of infringement. That approach makes no sense, particularly where the goal is to deter culpable conduct. A defendant who proceeds deliberately in the face of an obvious risk of harm is no less culpable simply because he later invents a defense to justify his behavior. The *Seagate* approach altogether misses this basic point, thereby

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patented device "[was] by no means free from doubt." 145 U.S. at 164, 174.

[13] The Court in *Safeco* left open the possibility that "good-faith reliance on legal advice" would prevent conduct from being willful. 551 U.S. at 70 n.20. As that reservation indicates, recklessness must be assessed based on the facts as they were known to the defendant at the time.

ratifying "intentional disregard" of patent rights. *Seagate*, 497 F.3d at 1385 (Newman, J., concurring).

Moreover, as a practical matter, an accused infringer is virtually always able to devise an after-the-fact defense that is not frivolous. Determining issues of validity and infringement—including, for example, whether a particular claim is "obvious" in light of the prior art known to one of ordinary skill—often involves analyzing technical patent claims and specifications. Thus, even when the legal issues presented in an infringement suit are relatively clear-cut upon close examination, the sheer technical nature of the questions involved has dissuaded courts from declaring losing defenses objectively unreasonable. The upshot is that even the most culpable infringers can avoid enhanced damages by conjuring up any plausible (though incorrect) defense. The Federal Circuit has taken a patent regime configured to promote creative genius and reconfigured it to reward creative litigation.

The Federal Circuit has compounded its error by failing to evaluate an infringer's defenses properly in two ways. *First*, in determining whether a defense is plausible, the Federal Circuit does not explicitly take into account the patent's presumption of validity. See 35 U.S.C. 282(a) ("A patent shall be presumed valid."). But the presumption remains intact at all times until it "has been overcome by convincing evidence of error." *Microsoft Corp.* v. *i4i Ltd. P'ship*, 131 S. Ct. 2238, 2248 (2011) (quoting *Radio Corp. of Am.* v. *Radio Eng'g Labs.*, 293 U.S. 1, 7 (1934)). The plausibility of an infringer's defense should be undertaken with an eye toward the end game: did the defense have a plausible chance of rebutting the presumption of invalidity and actually invalidating the patent? When the

answer to that question is no, the defense should not be a bar—as it may be now—to an award of enhanced damages.

Second, the Federal Circuit has held that considerations of objective risk are strictly segregated from considerations of subjective bad faith. See *Halo Electronics, Inc.* v. *Pulse Electronics, Inc.*, 780 F.3d 1357, 1362 (Fed. Cir. 2015) (O'Malley, J., dissenting) (noting the "evidentiary wall * * * between the objective and subjective portions of the inquiry"); *Powell* v. *Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011). Under this approach, for instance, evidence of intentional copying—which is directly relevant to obviousness and, in turn, to the risk of liability—cannot be considered in evaluating the objective reasonableness of an infringing defendant's position. In this very case, the Federal Circuit held that in assessing the objective reasonableness of Zimmer's defenses, the district court should have ignored "that Zimmer all but instructed its design team to copy Stryker's products." Pet. App. 22a (internal quotation marks omitted). That artificial segregation of evidence regarding subjective bad faith has no basis in law or logic, and it aggravates *Seagate*'s harmful consequences.

C. The Federal Circuit's Approach Severely Underdeters Culpable Infringement.

Seagate was motivated in part by the Federal Circuit's view that enhanced damages should not be available in run-of-the-mill cases. See 497 F.3d at 1369, 1371. On that, petitioners are in complete agreement. But the Federal Circuit has crafted an inflexible standard that sets the bar too high, resulting in severe underdeterrence of culpable infringe-

ment. Because of the "great pressure to copy a competitor's patented invention" in highly competitive, technical fields, "the threat of treble damages" is meant "to persuade these companies that their best economic option is to respect valid patents." 157 Cong. Rec. S1374 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). As explained above, Section 284 does not serve that function under current Federal Circuit precedent, because the most egregious infringers are typically able to avoid any enhancement.

This case is a textbook example of a bad-faith infringer that opted to risk litigation rather than respect its competitor's valid patents. As the district court put it, "this was not a close case": Zimmer "handed [an] independent contractor a copy of Stryker's product and said, 'Make one for us.'" Pet. App. 51a, 53a. Moreover, Zimmer continued to sell its copies even after the court's summary judgment rulings and the jury's subsequent verdict that Zimmer was infringing. As the court noted, Zimmer's continuing infringement was "consistent with both [its] market and litigation strategy * * * of competing immediately and aggressively * * * and opt[ing] to worry about the potential legal consequences later." *Id.* at 52a. The Federal Circuit's approach is precluding enhanced damages in what should be easy cases under Section 284.

More generally, the most readily available form of relief for patentees is a reasonable royalty—both a retrospective royalty to compensate for past harm and, for those who cannot obtain an injunction under *eBay Inc.*, 547 U.S. 388, a prospective royalty to compensate for future harm. See *Uniloc USA, Inc.* v. *Microsoft Corp.*, 632 F.3d 1292, 1312 (Fed. Cir. 2011) ("A reasonable royalty is the predominant measure of

damages in patent infringement cases."). A reasonable royalty alone, however, does little to deter disregard of patent rights, because in many cases it "leave[s] the defendant no worse off as a result of the infringement" than if it had negotiated a license ex ante or sought to design around. Thomas F. Cotter, *An Economic Analysis of Enhanced Damages and Attorney's Fees for Willful Patent Infringement*, 14 Fed. Cir. Bar J. 291, 316 (2004). Indeed, one of the central purposes of enhanced damages is to "discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty." S. Rep. No. 1503, 79th Cong., 2d Sess. 2 (1946). The Section 284 standard should not encourage infringers to roll the dice on litigation.

D. Congress Has Not Ratified Or Acquiesced In The Federal Circuit's Approach.

1. As a last refuge, respondents will argue that Congress has accepted the Federal Circuit's approach over the years through its changes to the patent laws. But when Congress reorganized the patent laws in 1952 and enacted the current version of Section 284, courts were virtually uniform in following petitioners' approach: courts conducted a single inquiry based on the totality of the circumstances, in which the willfulness of the defendant's infringement was one relevant consideration. Simply put, if Congress has ratified any approach here, it is petitioners'. See *Bragdon* v. *Abbott*, 524 U.S. 624, 645 (1998). But at a minimum, the meaning of the term "willfulness" was not sufficiently well-established in 1952 for Congress to have accepted respondents' interpretation.

2. Congress also did not ratify a willfulness prerequisite in the America Invents Act. If anything, the

opposite is true. The Senate considered amending Section 284 to require "that an infringer has willfully infringed a patent." S. 515, 111th Cong. (2010); see S. Rep. No. 18, 111th Cong., 1st Sess. 94 (2009); 157 Cong. Rec. S134-S135 (daily ed. Jan. 25, 2011). But that proposal met with serious opposition and was not included in the final bill. See, *e.g.*, S. Rep. No. 18, 111th Cong., 1st Sess. 53, 58-60 (2009); 157 Cong. Rec. S940 (daily ed. Feb. 28, 2011); *id.* S1374 (daily ed. Mar. 8, 2011). Nothing in the AIA suggests that Congress views willfulness as a prerequisite to enhanced damages, let alone as a rigid, dual-pronged requirement.

To be sure, the AIA states that "[t]he failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer *willfully infringed* the patent." 35 U.S.C. 298 (emphasis added). But in altering one specific aspect of how the Federal Circuit determines willfulness, Congress did not implicitly ratify the remainder of the Federal Circuit's willfulness framework. See, *e.g.*, *Alexander* v. *Sandoval*, 532 U.S. 275, 292 (2001) (noting that, "[a]s a general matter," arguments about legislative acquiescence "deserve little weight in the interpretive process") (quoting *Central Bank of Denver, N.A.* v. *First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 187 (1994) (brackets in original; second brackets omitted)).[14]

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[14] Section 298 could not possibly have ratified the Federal Circuit's subsequent, post-2011 decisions adopting de novo review for objective recklessness or allowing post hoc defenses to preclude a finding of objective recklessness.

Nor does Section 298's use of the term "willfully" mean that willfulness must continue to operate as a prerequisite to enhanced damages. Section 298's bar will continue to apply whether willfulness is a prerequisite or instead a factor in the totality inquiry. On petitioners' approach, Section 298 will serve its intended function because district courts will conduct a totality inquiry but will be barred from considering defendants' failure to consult legal counsel about the possibility of infringement.

VI. THIS COURT SHOULD REVERSE THE DECISION BELOW IN RELEVANT PART.

After finding objective recklessness and subjective bad faith, the district court in this case evaluated the totality of the circumstances (including Zimmer's egregious conduct), trebled the jury's damages award, and granted attorney's fees. Pet. App. 116a-120a. The Federal Circuit did not disturb that analysis, but instead held that Zimmer's infringement was not objectively reckless because Zimmer had presented one minimally plausible defense for each patent in this litigation. *Id.* at 22a-23a. If the Court holds that willfulness is not a prerequisite to the totality inquiry, or that willfulness does not demand objective recklessness as the Federal Circuit understands that requirement, then the Court should reverse the Federal Circuit's vacatur of the district court's awards of enhanced damages and attorney's fees. The district court already conducted the necessary totality inquiry, and nothing suggests that court abused its discretion. See *Faragher* v. *City of Boca Raton*, 524 U.S. 775, 809-810 (1998). At a minimum, this Court should remand the case to the Federal Circuit for a determi-

nation whether the district court abused its discretion in enhancing damages and awarding attorney's fees.

CONCLUSION

For the reasons set forth above, the relevant portions of the judgment below should be reversed or at a minimum vacated and remanded.

Respectfully submitted.

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